

BEFORE THE
POSTAL REGULATORY COMMISSION

Periodic Reporting (Proposal Four)

:
:
:

Docket No. RM2017-8

REPLY COMMENTS OF UNITED PARCEL SERVICE ON
NOTICE OF PROPOSED RULEMAKING ON ANALYTICAL
PRINCIPLES USED IN PERIODIC REPORTING (PROPOSAL
FOUR)
(September 25, 2017)

In its reply comments,¹ the Postal Service makes two arguments regarding the seasonality correction that UPS proposed in its comments dated August 9, 2017.² First, the Postal Service argues that due to variation between the 2015 values and the 2017 values of the monthly weights derived from the in-office cost system (“IOCS”), the weights are inappropriate for correcting seasonal bias in Proposal Four.³ Second, the Postal Service argues that the method UPS used in calculating the overall deviation parcels and accountables (“DPA”) delivery ratio contains an error.⁴ The Postal Service also commented on UPS’s proposal for increased transparency, arguing that the

¹ Reply Comments of the United States Postal Service Regarding Proposal Four, Dkt. No. R2017-8 (Aug. 16, 2017) (“USPS Reply”).

² Comments of United Parcel Service Comments on Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Four), Dkt. No. RM2017-8 (Aug. 9, 2017) (“UPS Comments”).

³ USPS Reply at 5-6.

⁴ *Id.* at 6.

increased transparency would unduly burden the Postal Service.⁵ As explained below, all three arguments are flawed.

A. UPS' Proposal Is Robust With Respect To Any Alleged Instability in the Proposed Weights

The Postal Service's argues that "the monthly IOCS weights appear to be quite unstable over the two regimes for which USPS calculates them."⁶ It further argues that this instability "could quite likely be driving the results claimed by UPS."⁷ But the primary reason that the bias correction suggested by UPS has different impacts over the two years is because the distribution of Form 3999 route evaluations conducted in each year changed significantly.

Table 1 below illustrates the problem, as well as the reason for the differential impacts of the seasonality correction.⁸ As explained in UPS's initial comments, the monthly distribution of collected Form 3999 data does not mirror the monthly distribution of actual delivery costs.⁹ This mismatch ultimately introduces error into the model underlying Proposal Four. For example, it is undoubtedly the case that December accounts for more than 1.89% of total gross street hours on city carrier letter routes. Yet December barely factors into the annual DPA share calculation in either FY14 or FY16. The Postal Service's reply comments have not disputed the potential for bias or the need for this correction.

⁵ *Id.* at 7-9.

⁶ USPS Reply at 5.

⁷ *Id.*

⁸ Table 1 and Figures 1, 2, and 3 are based on figures that are contained in the spreadsheet attached electronically to this response on the docket.

⁹ UPS Comments at 6.

Table 1 below also shows why the seasonality correction suggested by UPS has different impacts in the two years. The months with the lowest DPA shares in FY14, namely June through September, were under-represented in the Form 3999 evaluations used to calculate the annual FY14 DPA share. This largely offset the under-representation of the high-parcel share months like December and to a lesser extent January; consequently the seasonality correction proposed by UPS had a relatively modest effect on the FY14 annual DPA share. In FY16, however, the months with the lowest DPA shares—namely April through June—were *over-represented* in the data used to calculate the FY16 DPA share, and the seasonality correction had a larger impact.

Table 1: DPA Share, and Share of Gross Street Hours by Month (FY14 & FY16)

	FY14		FY16	
	Share of Gross		Share of Gross	
	DPA Share	Street Hours	DPA Share	Street Hours
	[1]	[2]	[3]	[4]
January	4.47%	7.27%	5.85%	3.87%
February	4.36%	8.32%	5.89%	6.32%
March	4.28%	15.39%	5.41%	9.70%
April	3.96%	18.42%	5.19%	12.27%
May	4.02%	18.80%	5.03%	12.97%
June	3.60%	5.13%	5.23%	11.48%
July	3.49%	3.99%	5.39%	8.38%
August	3.65%	5.18%	5.50%	11.38%
September	3.64%	5.07%	5.47%	11.26%
October	3.79%	6.07%	5.24%	6.26%
November	4.12%	4.47%	5.64%	4.76%
December	5.47%	1.89%	6.82%	1.36%
Total		100.0%		100.0%

Sources: Form 3999 datasets as produced in Dkt. No. RM2015-7 and RM2017-8.

Notes:

[1], [3]: Deviation parcel and accountable time summed across route evaluations occurring in the specified calendar month, divided by the sum of gross street hours occurring in the same month.

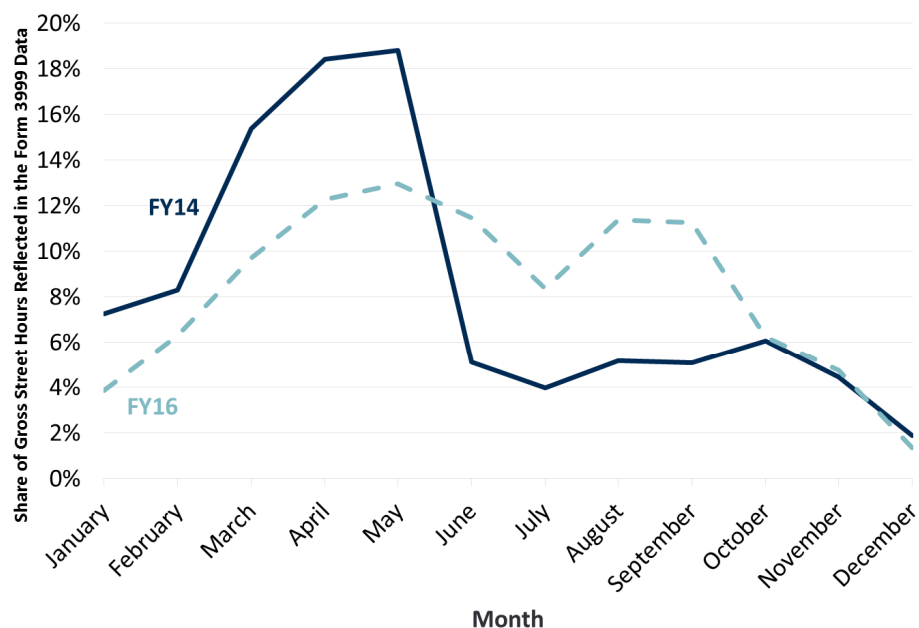
[2], [4]: Sum of gross street hours occurring in the specified month divided by the sum of gross street hours across all months (within each Form 3999 dataset).

Only route evaluations included in the USPS street time proportion calculations are included.

The fact that UPS's proposed seasonality correction yields different results when applied to different versions of the 3999 data is not a sign of problems with UPS's proposed weights. Rather, it illustrates the instability of the seasonal distribution of route evaluations in the 3999 dataset, and the need for a reliable way to compensate for this instability. This instability will in fact introduce errors into the Postal Service's proposed method *unless* Form 3999 data is collected in proportion to total delivery activity per month.

It is clear from Table 1 and Figure 1 below that this is not how Form 3999 data is collected.¹⁰ Figure 1 below shows that there are significant differences between the FY14 and FY16 patterns, with the FY14 data more heavily skewed towards the first 5 months of the year than the later data.

Figure 1: Share of Gross Street Hours by Month in the Form 3999 Data

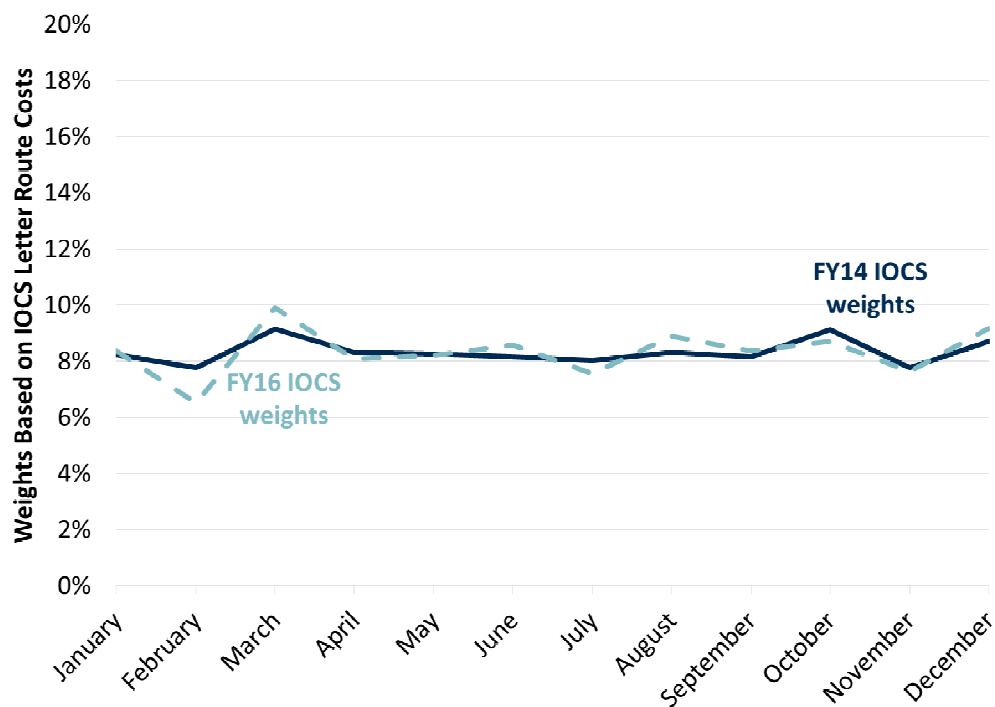


Source: Form 3999 datasets as produced in Dkt. No. RM2015-7 and RM2017-8. Only route evaluations included in the USPS street time proportion calculations are included.

¹⁰ Figure 1 shows the share, by month, of gross street hours in the Form 3999 data included in the DPA share calculation in each of the FY14 and FY16 datasets.

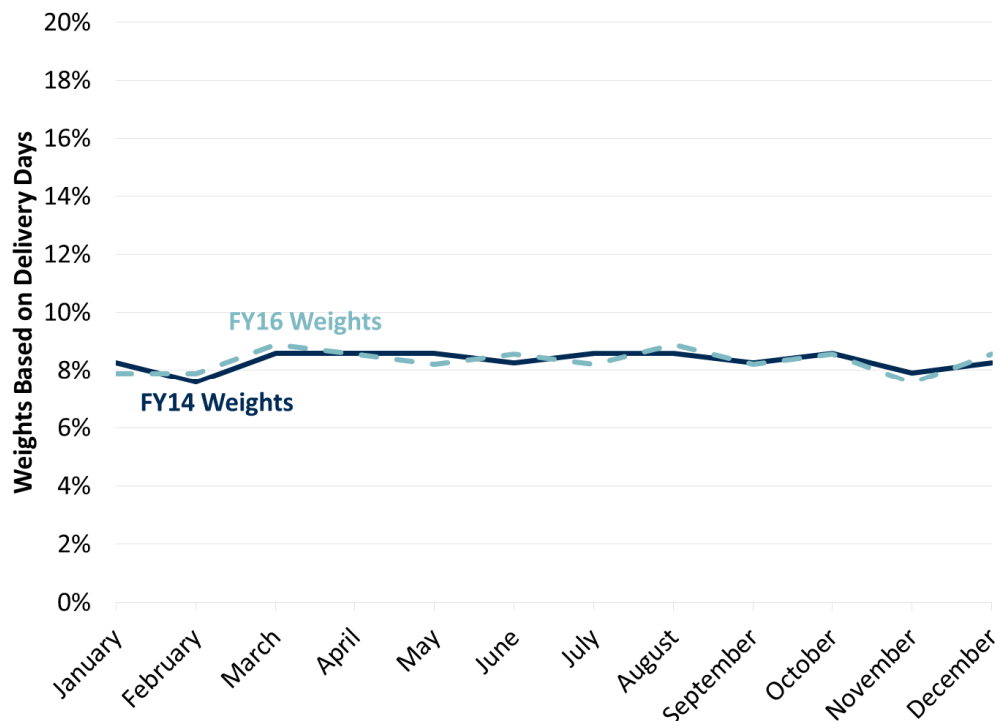
In contrast, Figure 2 and Figure 3 (graphed on the same scale as Figure 1) conduct the same analysis but using the two sets of alternative weights proposed by UPS (IOCS and delivery days). These weights are both more stable between the two sets of Form 3999 data and therefore more likely reflective of the seasonal pattern of actual operations. While UPS agrees with the goal of Proposal Four, these results shows that the growth in the DPA share that will be calculated in future years under the Postal Service's proposed methodology is prone to potential over- or under-statement, due to both the unrepresentative nature of the gross street hours that are included in the Form 3999 data and the likelihood of differences over time in the distribution of Form 3999 evaluations between a given future year and the base year (FY14) to which it is being compared.

Figure 2: IOCS-Based Weights, FY14 and FY16



Source: USPS-FY16-37, USPS-FY14-37. Weights based on letter route costs as recorded in IOCS data.

Figure 3: Delivery Day-Based Weights, FY14 and FY16



The Postal Service has stated it “does not anticipate modifying the seasonal distribution of route evaluations.”¹¹ Unless the Form 3999 data for both the base year (FY14) and all future years are reflective of the distribution of *total* gross street hours in the respective fiscal year, however, the methodology put forth in Proposal Four would be prone to bias. Put differently, even if the seasonal distribution of route evaluations does not change in future years, the methodology as proposed would contain a persistent flaw—the resulting DPA adjustment would only partially reflect the true increase (or decrease) in the DPA share, but would also be driven in part by the timing of the Form 3999 evaluations.

¹¹ Responses of the United States Postal Service to Questions 1-11 of Chairman’s Information Request No 1, Dkt. No. RM2017-8 (Aug. 2, 2017), at 19 (Response to Question 8).

UPS's proposed correction would be a robust safeguard against this issue. Implementing the seasonality correction as described by UPS in its proposal should help protect against the risk that the year-to-year movements in the DPA share are unduly influenced by the timing of the Form 3999 route evaluations relative to the base year (FY14), as opposed to reflecting true increases or decreases in the proportion of city carrier street hours that are spent delivering parcels. In fact, one would expect that the weights used to adjust for the seasonality patterns in the Form 3999 data *would change* over time. Certain times of the year may evolving demands on city carrier in the years to come. The possibility that a monthly measure of costs changes from year to year would not invalidate its use as a weight; indeed the ability to construct an annual DPA share that reflects any changes in the seasonal pattern of city carrier operations is a key benefit of the correction proposed by UPS.

UPS initially chose the IOCS data as the basis for monthly weights as they are the data that, to UPS's knowledge, are best able to reflect the monthly or seasonal patterns in *actual* letter route costs over the course of a fiscal year.¹² UPS also proposed an alternative weighting based on delivery days, which achieves the same purpose and effect.¹³ In any case, both sets of weights proposed by UPS—the IOCS weights and the weights based on delivery days—undoubtedly provide a more reliable

¹² This implicitly assumes that gross street hours on letter routes are approximately proportional to letter route costs, which is consistent with the implicit assumption underlying the use of Form 3999 data as the basis for cost pool formation for city carrier letter routes. See, e.g., Report on the City Carrier Street Time Study, Dkt No. RM2015-7 (Dec. 11, 2014), at 3-4.

¹³ The two alternative weightings proposed by UPS produce very similar results. See UPS Comments at 7 n.10; UPS-RM2017-8/1. This provides further evidence that the weightings are robust, reliable, and accurate. To the extent the Postal Service is aware of a better source of data for that purpose, UPS would welcome the opportunity to consider another option.

reflection of the distribution of true letter delivery costs throughout the year than the irregular patterns derived from the Form 3999 data and depicted in Figure 1.

B. The Postal Service is Incorrect in Claiming to Have Found an Error in UPS's Proposal

The Postal Service also claims to have uncovered an error in UPS's proposed correction. In particular, the Postal Service argues that "UPS erroneously calculates the overall DPA delivery ratio as the average of the monthly ratios," and that "[t]he correct method would instead be to calculate the ratio of the total DPA time for the year, divided by the total street time for the year."¹⁴

The Postal Service would be correct if it were possible to derive such figures. It is not possible, however, because the Postal Service does not collect DPA time for every single route on every single day of the year. The "total DPA time" and "total street time" that the Postal Service calculates is just the arithmetic sum of all the times collected as part of the Form 3999 Route Evaluation process, the seasonal distribution of which does not correspond to that of actual delivery activity. Relying on their proposed summations of the Form 3999 data would re-introduce the same biases discussed earlier.

This very error is found in the Postal Service's work papers. The Postal Service's proposed "correction" is demonstrated on the [IOCS Weighted Avg] and [DD Weighted Avg] tabs of the "PA Share of Street Hours.Extended.xlsx" file that accompanied their Reply Comments. This calculation applies the monthly IOCS shares to the monthly totals for parcel and accountable hours and gross street hours collected through the Form 3999 process. As the graphs above indicate, the IOCS shares vary

¹⁴ USPS Reply at 6.

little from month to month. However, the monthly Form 3999 totals vary significantly from month to month, reflecting *the uneven distribution of Form 3999 route evaluations throughout the course of the year*. This uneven distribution is precisely the distortion that UPS' proposed correction is designed to address. In other words, the Postal Service's proposed "correction" doesn't correct anything, but simply has the effect of undoing the reweighting and restoring the lop-sided distribution of the unweighted Form 3999 evaluations (and thus gross street hours). The reweighting scheme proposed by UPS results in a much more accurate calculation of the annual average DPA share.

C. The Postal Service's Argument Regarding the Alleged Burden of Providing Increased Transparency Is Not Compelling

The Postal Service also criticizes UPS' request for the Commission to consider requiring increased transparency. The Postal Service does not dispute the rationale offered by UPS for requiring such transparency, instead citing the burden of producing "several variations on the Form 3999 database."¹⁵ Its comments mischaracterize the request made by UPS with respect to the Form 3999 data, because UPS asked only for a single version of the Form 3999 data.¹⁶ The Postal Service has objected to including "evaluation information . . . beyond that obtained from the most recent evaluation (e.g., if the earlier evaluation were performed during the same fiscal year)," arguing that complying with this request "would engender the need for a new organizational structure

¹⁵ *Id.* at 7.

¹⁶ UPS's request was for the Postal Service to produce "a version of the Form 3999 dataset that includes, with masked zip code identifiers: (1) all route evaluations conducted during the fiscal year (possibly including more than one for some routes); and (2) the most recent route evaluation for those routes that were not evaluated during the most recent fiscal year." The Postal Service is not currently required to produce any Form 3999 data as part of the ACR process, despite the fact that is a key first step in allocating nearly 12 billion dollars in costs.

for what currently is simply a dynamic database.”¹⁷ While UPS is sensitive to the potential burdens associated with new data requests, we do not understand the basis for this response. This is because in Docket No. PI2017-1, the Postal Service explained that “DOIS maintains a complete archive of Form 3999s, by route. The archive dates back to the creation of DOIS, starting as early as 2000 with a phased deployment that continued until 2006.”¹⁸ On its face, this statement implies that a relatively simple extraction from this archive would appear to provide the Form 3999 data requested by UPS, so it is not clear that a great burden exists.

Conclusion

UPS reiterates its support for Proposal Four. Nevertheless, UPS’s proposed improvement to Proposal Four is important in order to address a potential bias inherent in the proposal. The “perfect” weights to use in implementing UPS’s correction may not exist. In the meantime, UPS’s proposed correction should be incorporated into Proposal Four.

Respectfully submitted,

UNITED PARCEL SERVICE, INC.,

By /s/ Steig D. Olson

Steig D. Olson
Christopher M. Seck
David D. LeRay
Andrew Sutton
Quinn Emanuel Urquhart &
Sullivan, LLP
51 Madison Ave., 22nd Floor
New York, NY 10010

¹⁷ USPS Reply at 8.

¹⁸ Responses of the United States Postal Service to Questions 1-10 of Chairman’s Information Request No. 2 (July 25, 2017), Dkt. No. PI2017-1, Response to Question 9(g).

(212) 849-7152
steigolson@quinnemanuel.com
christopherseck@quinnemanuel.com
davidleray@quinnemanuel.com
andrewsutton@quinnemanuel.com

Attorneys for UPS